RESPONDING TO THE NAFTA CHALLENGE:

ONTARIO AS A NORTH AMERICAN REGION STATE
AND
TORONTO AS A GLOBAL CITY-REGION

by

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I: INTRODUCTION

The severe economic fallout of the early 1990s recession represented a watershed in the evolution of the Ontario and, within the province, the role of Toronto and the Greater Toronto Area (GTA). Four years after the onset of the recession, Ontario's employment still languished at roughly 96% of its pre-recession peak. And employment in the GTA fell by nearly 10% from peak to trough. On the fiscal front the economic fallout was nothing short of spectacular: Ontario's governing New Democratic Party (Canada's version of a social democratic party) oversaw five consecutive years (1990-95) of deficits in excess of $10 billion, for an overall increase in government debt of nearly $60 billion, surely a record for a sub-national government, anywhere, anytime. Thus, by 1995, Canada's most powerful and populous province[1] was verging on "fiscalamity".

With the election in 1995 of Mike Harris and his fiscally conservative and market-oriented Progressive Conservative party, the role of Ontario (and Toronto) within Canada and North America changed in a dramatic and irreversible manner. Ontario effectively transcended the erstwhile conception of itself as the economic and cultural focal point for an east-west economy and turned its attention and its policy arsenal to take advantage of the emerging opportunities ushered in by the Canada-US Free Trade Agreement and by NAFTA. (Perhaps it is more appropriate to refer to this as a major *political* turning point since, on the economic front, Ontario's private sector was already in the throes of pursuing north-south integration). As Colin Telmer and I (1998) have detailed in our recent book, Ontario is in the process of making the dramatic transition from Canadian "heartland" to a North American Region State. In effect, the powerful message of the recession was that the former pan-Canadian, or east-west, economic perspective was leaving Ontario ill-prepared to address the open borders of NAFTA. Likewise Toronto, long ensconced in the comfortable pew as the natural and national centre for the provision of pan-Canadian public goods and services, realized that, of and by itself, this was no longer a viable economic future. Hence, Toronto and the GTA also had to make a key transition – from a national economic capital with a significant international reach to a full-blown global city intimately tied to NAFTA's emerging geopolitical reality. I hasten to add that neither Ontario nor Toronto have abandoned their east-west role: rather, their focus is shifting markedly to ensure that they are positioned to become competitive and to excel in a north-south economic environment and, within this, to preserve and promote their east-west hegemony.

The role of this paper is to describe and assess these transformations in terms of their implications for Toronto, for Ontario, and for the Canadian federation. Even though the presence of a powerful international city is an absolute prerequisite for donning the mantle of a North American region state, the initial focus in what follows is on the latter, namely the attempt by Ontario to redesign itself politically and economically to become a "heartland" of North America. Within this framework, I then address the challenges and opportunities facing Toronto and the GTA as it makes its way as a global city. Admittedly, this may well tilt the analysis too much in the direction of linking Toronto's global city aspirations and performance to the associated and far-reaching changes in the underlying nature of the Canadian federation itself. Nonetheless, as powerful as Toronto is economically, it remains, in a formal political sense, very weak: Canadian cities are essentially creatures of their respective provincial governments, with no direct links to the federal government (Ottawa was forced to abandon its short-lived ministry of urban affairs a couple of decades ago). Thus, the obvious economic dynamism of Toronto is necessarily circumscribed by the division-of-powers and policy evolution of the Canadian federation, (as will become apparent later in terms of the bank-mergers issue, among others).

Accordingly, the analysis proceeds as follows. Part II focusses on the emergence of Ontario as a region state, beginning with the pressures arising from globalization and the information revolution. After a brief focus on European experience with region states, attention is directed toward the factors propelling Ontario in the direction of a “regional-international” interface – the shift toward north-south trade integration, the devolution of powers within the Canadian federation and the economic and industrial power of Ontario within North America. This is followed by an analytical perspective: drawing on Michael Storper’s (1994) conception of region states as embodying “untraded interdependencies” the analysis applies this framework to the recent policy initiatives of the Harris Conservatives in Ontario. The section on region state Ontario concludes with a series of implications for Ontario, for its sister provinces and for the Canadian federation itself.

Given the dominant position of Toronto and the GTA within Ontario, the evolution of Ontario toward region-state status is, in effect, also the evolution of Toronto toward global region-city status. In Part III, I focus in more detail on opportunities and challenges facing Toronto as it competes head-to-head with US global city-regions – its strategic location, the well-balanced nature of its economic base and its recent and likely future evolution in light of the wide-ranging policy initiatives undertaken by region-state Ontario. A brief conclusion completes the paper.

II: ONTARIO AS A NORTH AMERICAN REGION STATE

> *The principal dilemma of contemporary economic geography is the resurgence of regional economies and of territorial specialization in an age of increasing ease of transportation and communication (Storper, 1994, 22).*

> *National Boundaries have become increasingly irrelevant in the definition of market and production spaces while regions, rather than countries, are emerging as key policy arenas (United Nations, 1990, iii).*

> *On the global economic map, the lines that now matters are those defining what may be*

called "region states" (Ohmae, 1993, 78).

A. Glocalization

The above visions of the emergence and role of region states (which, in general, probably apply with more force to global city-regions) provides the appropriate backdrop for the evolution of Ontario from Canadian heartland to a North American region state. Underpinning this transition is the reality that globalization and the informatics revolution are transforming the nation state, especially the federal nation state. One need not go as far as Robert Reich (1991) and proclaim the death knell of the economic nation state, but I would align myself with Daniel Bell who, as far back as 1987, asserted that nation states had become too large to tackle the small things in life and too small to address the large things. Paquet (1995) refers to this as the "Gulliver Effect" — nation states are unable to deal effectively either with the dwarfs of Lilliput or the giants of Brobdingnag. In effect, powers are being transferred upwards and downwards and outwards from central governments of nation states. This shift toward the global and local is effectively captured by "glocalization".

One result of this transfer of powers upward and downward from nation states is what Drucker (1986) refers to as the intriguing coincidence of an *integrating global economy* and a *splintering global polity*. Specifically, with the emergence of a supra-national infrastructure (whether in terms of trade agreements, of a single market à la Europe 1992, or the advent of the Euro), sub-national units can now leapfrog their national governments, tie themselves to these overarching structures and pursue a regional-international interface.

Those sub-national units that are typically viewed as potential region states tend to combine the impacts of glocalization with one or more aspects of linguistic or socio-cultural distinctiveness. Hence, most analysts would view Catalonia as the leading exemplar of this type of region state – an economic powerhouse centred around Barcelona with substantial outward linkages, considerable and growing regional powers and a distinctive language and culture. And some might put Quebec in this category as well: it is culturally, linguistically and institutionally (e.g. civil law rather than common law) distinct, has much more in the way of political autonomy than Catalonia, but it is much less of an economic power, both domestic and internationally. In terms of other federal nations, Belgium would come to mind. The decentralized Belgian provinces appear to be latching on to the EU infrastructures, effectively eclipsing the traditional role for their federal government. And in recent years, both the richer Flemish province and the poorer Walloon province have been veering, willy-nilly, in the direction of becoming separate nation states. Where this would leave largely French-speaking Brussels (the third of the three Belgian provinces, nestled in the Flemish region) is not entirely clear — perhaps as a European capital district. In any event, the Belgian cleavages are linguistic, although economic factors are also prominent.

While this association of region states with socio-cultural-linguistic distinctiveness is obviously important for some purposes (e.g. predicting which sub-national units may one day become sovereign nation states), it has minimal application to the case for Ontario as an emerging region state. Ontarians, by and large, share the same values as the rest of Canadians. Hence, the rationale for viewing Ontario as an emerging region state does not derive from any notion that the province is in any way a "distinct society," at least in the traditional meaning of this term.

Nonetheless, the glocalization phenomenon remains relevant. With policies previously provided by Ottawa now coming under the rubric of GATT/WTO, or NAFTA or the Bank for International Settlements, the federal government matters less in these areas. And with the on-going transfer of powers downward in the Canadian federation, Queen's Park (Ontario's equivalent to

Westminster) plays a much larger role in the way in which Ontarians live and work and play than heretofore was the case. In this sense, the new economic order is certainly a necessary condition to any conception of Ontario as a region state. Of and by itself, however, at best this would suggest that Ontario would become a highly decentralized province, not a region state.

Phrased differently, we need a different conception of a region state, one that does not depend on socio-cultural-linguistic distinctiveness. Enter the European regional science literature.

B. The Regional-International Interface: Europe

The European policy literature, especially the regional science literature, is well ahead of its North American counterpart in recognizing the increasing role played by cross-border regions. In part, this is because most of the powerful European industrial regions have economic hinterlands that extend beyond national borders. Consider the Lyon (France), Turin (Italy) and Geneva (Switzerland) nexus:

> The Rhône-Alpes is France's strongest region, and Lyon, its capital and France's second-largest city, is a major international centre. Lyon's commercial policy is gaining independence and extending its European and global reach. Its airport was the first in France to acquire a high-speed rail link. Lyon's plan for growth includes high-speed rail service to Turin, Italy, which will require tunnelling 35 miles through the Alps but will cut travel time between the cities to just over an hour. The wealthy triangle formed by Lyon, Turin and Geneva — known as the Alpine Diamond — has a synergy that few regions of the world can match" (Newhouse, 1997, 71-72).

As a result of these and other major cross-border regions, there is a growing realization in policy circles that the traditional *national-national interface* is giving way to a *regional-international interface*. Newhouse (1997, 67) notes that two parallel and related processes have emerged: "One is regionalism, the other globalization: instead of working through national capitals, European regions are linking themselves directly to the global economy" and, further (p. 69), "in this more freewheeling environment, bankers and industrial planners have begun to view Europe at least as much as a group of distinct economic regions as an assortment of nation states."

A second implication is the recognition that comparative advantage is largely a regional rather than a national phenomenon. The obvious corollary is particularly important:

> "regionalism is much more than a return to cultural roots or a distancing from national capitals. It has as much to do with wealth creation as anything else" (Newhouse, 1997, 69).

That this resonates well with what is emerging in Ontario and will be the focus of much of the rest of the first half of this paper. In the remainder of the present section, we shall continue with European examples.

From an Ontario perspective, the best known example of this regional-international interface is the 1988 "Four Motors Association". The four participants were the regions surrounding the international cities of Stuttgart (Baden-Würtemberg), Barcelona (Catalonia), Lyon (Rhône-Alpes), and Milan (Lombardy). (In 1989, Ontario became an "associate" member of the Four Motors Association, an indication that the concept of cross-border regionalism was wholly familiar to the then government of Ontario). These four regions have, in selected areas, more in common with each other than with other regions of their respective countries. Thus, the agreement serves as a template for coordinating their common industrial and cross-border interests and it also serves to coordinate and enhance their lobbying efforts and influence with Brussels (i.e. within the EU).

These and other efforts in the direction of embracing the regional-international interface raise a potentially difficult problem for Europe and one with direct carryover to Ontario and Canada. In Newhouse's (1997, 72-73) words:

> If the larger purpose of the Four Motors Association is wealth creation rather than a conscious return to roots, will the process drive politics in its and other regions to the right,

> especially as some become richer and others poorer? And who will protect the poor and disadvantaged? Nation States? The EU?

Carried over to the Ontario setting, this has potentially dramatic implications for Canadian federalism. At one extreme is a centre-driven policy which props up the poorer regions at the expense of the richer regions. This implies active intervention in the allocation, east-west, of Canadian economic activity. The other is to allow the richer regions to pursue wealth creation as they see fit. Ottawa would then come in as an active intervenor on the distributional front. Actually, this may not be the other extreme, since it assumes the continued adherence on the part of Canadians to a "sharing community". If this adherence erodes, then the other polar solution may involve no federal intervention on either the allocation or distribution front and the acceptance of greater disparities across provinces. One implication of the emergence of Ontario as a region state is Canada will not have the luxury of ignoring this daunting policy challenge. More on this later.

In other aspects, the European situation does not (at least as yet) have a direct carryover to Ontario. For example, Baden-Würtemberg (Germany), Alsace (France) and Basel (Switzerland) are now one region for employment purposes (Newhouse, 1997, 71). The FTA and NAFTA provide for free movement of goods and services, but not of people. However, Chapter 16 of NAFTA does provide for "temporary entry" for four categories of people – business visitors, traders and investors, intra-company transferees and selected professionals. For how long can this be sustained? How long will it be before Ontario attempts to engage in sectoral agreements providing for much greater cross-border labour mobility?

This brings us to our final European example:

> "What is clear is that in this age of global trade and capital flows, not to mention information highways and high-speed travel, local entities feel better placed to manage their affairs than

> distant bureaucracies whether in national capitals or in Brussels. The German state of Baden-Würtemberg, for example, is making its own foreign and trade policies; it has signed several hundred agreements with other regions and entities" (Newhouse, 1997, 68-69).

Note that the relationship between Baden-Würtemberg and Bonn (or Berlin) is quite different from that between Ontario and Ottawa. One key difference is that the German upper chamber (Bundesrat) is comprised of delegates from the länder (i.e. the provinces, in our terms). Moreover, negotiations relating to international agreements involving the constitutional competences of the Länder are handled by the Bundesrat or representatives of the Länder. This differs from the Canadian reality, where the provinces have no formal role in international agreements, although they were brought into aspects of the FTA negotiations. Intriguingly, in the early 1990s Ontario closed most of its overseas trade offices, although it still devotes more money and personnel to this activity than do US states.[2] Given that these closures were triggered largely by fiscal decisions, it will be interesting to see if this international outreach is intensified now that Ontario is regaining its erstwhile fiscal flexibility. By way of an important offset, however, Ontario has much more in the way of legislative and policy freedom than does Baden-Würtemberg, i.e. Canada is much more decentralized than is Germany.

Overall, and unlike many other region states, Ontario not only has the economic/industrial power base (anchored by the GTA) and a cross-border economic hinterland, but it also has a degree of political/administrative power that *no* European region can match. And all of these aspects of Ontario's potential as a region state are now coming into play.

With this European backdrop, we now direct our focus to Ontario.

C. Regional-International Interface: Ontario

North-South vs East-West Trade

Chart 1 presents a dramatic picture of Ontario's rapidly rising North American economic integration. From a 1981 base where Ontario's exports to the rest of the world (ROW) and its exports to the other provinces (ROC) were roughly equal at $40 billion, by 1995 international exports had soared to about $140 billion, now roughly three times the level of ROC exports. While the ROW data includes exports to all countries, Ontario's international exports are predominantly (roughly 90%) to the US and the proportion of US to total Ontario exports has actually increased over this period. Indeed, according to the most recent data (Eves, 1998) Ontario's exports to the US now represent about 44% of its GDP. Not only is this an astounding degree of cross-border integration, but it is the driving force underlying Ontario's shift toward North-American region state status.

Table 1 provides further detail on the ROW-ROC trade patterns by province. In 1981, six provinces exported more to the rest of Canada than to the rest of the world (i.e. the 1981 value of the ratio, ROW/ROC, in column 3 is less than unity for six provinces). Only Newfoundland, New Brunswick, Saskatchewan and B.C. exported more to the rest of the world in 1981 than to the other provinces. The Ontario data in Table 1 for 1981 reveal rough equality for ROW and ROC exports.[3]

However, by 1996, only PEI and Nova Scotia exported more to ROC than to the rest of the world. Three provinces now have ROW/ROC ratios in excess of 2.0 (Newfoundland, British Columbia and Ontario). Crane (1997), in comparing 1990 and 1995 trade data for Ontario, notes that Ontario's ROW exports have grown over this 1990-1995 period nearly eight times as fast as exports to the rest of Canada. If this trend continues, even if it continues at, say, four rather than eight times the rate of east-west export expansion, the pressures on Ontario to focus its energies north-south will be overwhelming.

The last two columns of Table 1 present measures of "openness". Overall international exports represented 36.7% of aggregate GDP (last row of Table 1), with provincial ratios varying from 16.69% for Prince Edward Island and 19.39% for Nova Scotia on the low side to ratios of 43.5% for Ontario[4] and 37.2% for Alberta on the high side. If one adds in domestic exports, then the combined ROW-ROC exports-to-GDP ratios exceed 60% for four provinces – New Brunswick, Ontario, Saskatchewan and Alberta.

While ROW exports in Table 1 relate to exports to all countries, with over 80% of Canada's overall exports going to US markets is clearly the case that trade with the US now exceeds interprovincial trade.

If, in the European context, Newhouse (1997, 68) can proclaim that "regionalism, whether within or across national borders, is Europe's current and future dynamic", then this holds with even more force in Canada with the important proviso that our regional dynamics are unmistakably north-south. Indeed, as Telmer and I (1998) assert, *Canada is progressively less and less a single national economy and more and more a series of regional cross-border economics (and, for British Columbia, a Pacific Rim economy as well*).

This being the case, why single out Ontario as a North American region state? Why not Quebec where north-south trade combines with cultural nationalism or British Columbia which has traditionally felt alienated from central Canada? My answer is at least three fold. First, Ontario produces over 40% of Canada's GDP. It is one thing when British Columbia casts its sights south and west. It is quite another when the heartland veers north-south. Second, Ontario's economic base is largely in manufacturing and services. That is, its industrial base is inherently footloose, unlike the resource-rich provinces (Alberta, British Columbia and Newfoundland among other provinces). In turn, this means that preserving and promoting Ontario as a preferred location within the NAFTA umbrella necessarily means a much greater sensitivity to issues relating to North American comparative advantage. The third reason is the dominant one, however. As will be detailed below, Ontario is in the throes of a series of internal socio-economic revolutions that have no sub-national parallel anywhere in the world and, arguably, may even compare with the revolutions in Thatcher's UK and in New Zealand.

A Comparison with Intra-European Trade

Table 2 presents data on intra-European trade for the so-called EU15 nations. The first column of figures presents the proportion of EU exports to the country's total exports. These ratios are quite high, ranging over 80% (Netherlands and Portugal) to the 50% range for Greece, Finland, Italy, and Sweden. The EU15 aggregate ratio is 62.9%. *However, all of the individual country ratios are less than the 82% concentration of Canada's share of exports going to the US* (last row of the table) let alone the 90% ratio for Ontario.

The second data column presents EU exports as a percent of GDP. Here, three countries – Ireland (49%), Belgium/Luxembourg (48%) and the Netherlands (42%) have ratios in the range of the recent 44% figure for Ontario's exports to the US. At the aggregate EU15 level, (second last row), however, the ratio of EU exports to total GDP is only 16%, in comparison with the 30% figure for Canada's ratio of US exports to GDP (i.e. 82% of the overall export ratio of 36.57% in Table 1)..

The final column of Table is comparable to the "openness" data in the final two columns of Table 1. Ireland has an openness (total exports/GDP) of 69%, above any of the comparable provincial ratios, although the four provinces with ratios in the 60% range are not far off. However, the lowest Canadian province ratio (Nova Scotia with 39.91%) is above twelve of the fifteen European countries and the all-Canada ratio without including internal trade (i.e. 36.57% from the last figure in Table 2) is well above the 25% aggregate European ratio.

To be sure, these comparisons must be treated with caution. For one thing, it may be more relevant to compare say, the province of Ontario to the German province (Länd) of Baden-Würtemberg, but inter-Länder trade do not appear to be available. For another, larger countries tend to be more "closed" than smaller countries. For example, the aggregate openness ratios for France, Italy, Germany and the UK all fall between 19% and 23%. Nonetheless, the evidence is clear – Canada is more integrated trade-wise to the US than the EU countries are to Europe, and this is especially the case for Ontario and, by extension, the city-region of Toronto.

Ontario as a North American Economic "Motor"

What is missing in the analysis thus far is the ability of Ontario to continue to penetrate the North American market. Toward this end, the Appendix presents salient features relating to Ontario's economic, industrial and labour-market strengths vis-à-vis the North American market. (Important in terms of the later analysis is that much of the economic, social and cultural attributes of Ontario are anchored by Toronto and the Greater Toronto Area). Note that the details of this table are taken directly from the various Ontario sites on the web. Hence they are unabashedly promotional in nature. Nonetheless, they pack a rather powerful message. For example, disposable income within one-day's trucking of Toronto exceeds US $2 trillion, with a potential retail sales base exceeding US $1 trillion. This constitutes as large a one-day's trucking market as that for Boston or Detroit or New York. Assuming that the Canadian component of this market includes Quebec and Manitoba, the U.S. one-day's-trucking export market is about 17 times as large as the Quebec-Manitoba market. If one then notes that Ontario's exports to the US already amount to 44 percent of its GDP, small wonder, then, that Ontario's economic future lies in middle America. This is the fundamental economic reality underpinning the new Ontario and Toronto, and it is not reversible. Indeed, Ontario's North American economic integration is sure to intensify.

Regional Economic Diversity and Decentralization

It is not just that nearly all Canada's provinces are more integrated (in terms of the exports) internationally than east-west, but also that Canada's regions, which in some cases would incorporate more than one province, are economically/industrially quite distinct from one another. As already noted, this means that it is time to view Canada as a series of north-south, cross-border economies with quite distinct industrial structures. British Columbia is oriented toward the Pacific Rim and the US Northwest; the energy-based Alberta economy competes with the oil and gas producing regions of the Texas Gulf; the breadbaskets of Saskatchewan and Manitoba keep a competitive watch on the US midwest; the Great Lakes economies of Ontario and Quebec are integrated with each other and with their counterparts south of the border; and the fortunes of Atlantic Canada likely will increasingly be linked to the Atlantic Rim and the Boston/New York axis. To this regional economic diversity we must add the information contained in Chart 2, namely that the business cycles in these diverse regions are not synchronous.

From the upper panel of Chart 2, four years after the onset of the 1980s recession, employment in Ontario was 105% of the pre-recession peak, whereas employment in Alberta and especially British Columbia was still well below the pre-recession peak. The 1990s recession was entirely different. British Columbia skated through the recession with nary a negative impact – four years after the recession its employment was nearly 110% above the previous peak. In contrast, Ontario's employment was still well below its pre-recession high. This non-synchronization of regional economic cycles poses stabilization problems for our macro managers: there is only one monetary policy and only one exchange rate. Active pursuit of either as a stabilization instrument is apt to drag the policy authorities into the "politics" of regional fortunes.

Taken together, these geo-economic features of the upper half of North America (increasing north-south integration and the non-synchronization of business cycles) lead to some important observations. One of these is that the manner in which a Great Lakes economy might want to integrate apprenticeship, training, welfare, Employment Insurance (EI), education and the transition to work will likely differ from the way a Pacific Rim economy like BC might like to forge this same integration. In turn, this means that Ottawa has to allow substantial policy flexibility at the provincial level or else the provinces (at least the three rich provinces (Ontario, Alberta and British Columbia) as well as Quebec) will demand additional powers – for example, some provincial input with respect to federally run Employment Insurance in order to make these benefits more integrated with the provincial welfare/training/apprenticeship subsystems. In any event, the economic diversity across Canada's regions will likely lead to even more provincial policy diversity, the common term for which is "asymmetry".

Finally, the Canadian federal government is also playing into the hands of this trend toward decentralization and asymmetry at the provincial level. Over the recent years, it has transferred responsibility for training to the provinces. This follows the earlier devolution of powers relating to key aspects of forestry, mining, energy and tourism. Beyond this, Ottawa has agreed to constrain the operations of the federal spending power in areas of exclusive provincial jurisdiction. This adds a "push" factor, as it were, to the earlier factors that are pulling Ontario in the direction of a North American region state.

However, Ontario's large and increasing regional-international interface on the one hand and its proclivity to assert its constitutional powers on the other do not translate directly into the province becoming a North American region state: as noted, it could evolve into a highly decentralized province within the Canadian federation. What region-state status requires and implies is that Queen's Park becomes the focus for preserving, promoting and enhancing Ontario's economic future in North America. But this is exactly what Ontario is currently all about. In detailing Ontario's key policy initiatives toward this end it is appropriate to frame them within a conceptual framework relating to the *modus operandi* of region states.

D. Region States As Embodiments Of Untraded Interdependencies

It is much more difficult to sort out the analytics relating to region states than to document their empirical existence. In general, the relevant literature (again most of it European) falls into the "evolutionary" economics school rather than the neoclassical school. Specifically, the emphasis is not on equilibria (as it would be if the analysis were neoclassical), but on innovation, on agents of change, and on the role of institutional and structural elements. Indeed, the emphasis on path-dependency, on feedback mechanisms and on irreversibilities is central to this literature and predates the appearance of these concepts in mainstream economies as reflected, for example, in the recent literature on endogenous growth.

One important strand of this rich regional literature relates to the role of *local milieux* in generating networking which, in turn, can be characterized by organizational principles and linkages that encourage flexibility, the creation and transmission of knowledge, skill formation, mutual trust among partners, and so on (Lecoq, 1991, 239). Thus, these "milieux innovateurs" are, at the same time, *organizational* (in the sense that they embody a set of institutions, rules, conventions and practices) and *territorial* (in the sense that they are embedded in the social and economic infrastructure of the region).

Geographer Michael Storper (1994) extends this analysis by postulating that the success of Silicon Valley, Route 128 and other industrial “hot spots” must reside in what he calls *untraded interdependencies*. The “untraded” aspect is critical, since it implies that to access these interdependencies one must be located in the regional economy:

> Thus, regional economies constitute the nexus of untraded interdependencies which emerge and become, themselves, specific but public assets of production communities (assets of coordination, i.e. frameworks of collective action), and which underpin the production and reproduction of other specific assets such as labour and hardware (1994, 21).

One could, and probably should, expand this definition to explicitly include assets like social capital, although they are probably implicitly included. Economists may have a difficult time grappling with these concepts because their discipline is inherently market (i.e. tradeables) based. Hence, their focus is typically on “traded interdependencies” which, by definition, are not location specific. As a result, mainstream economists have not, until recently, played a major role in the development of this literature.

An alternative way to conceive of these untraded interdependencies is to view them as “locational externalities”, hopefully *positive* locational externalities but they could obviously be negative as well. One could conceive of a series of these externalities – one set might relate to the interdependencies at the industry/production level, another could involve the forward and backward linkages among education/training, income support and labour and product markets and a third might involve the set of public goods. Focussing on the third of these, a firm locating anywhere in North America has access to an international public good – NAFTA. If, among Canada, the U.S. and Mexico, the firm chooses to locate in Canada, it gains access to Canadian public goods (such as medicare for its workers) but foregoes access to the comparable US and Mexican national public goods and/or infrastructures. And if the firm locates in Ontario, it acquires the Ontario set, not the Alberta or Quebec set, of provincial public goods. Because we have focussed our example on public goods, it is fairly easy to see that they are inherently untradeable – one accesses them by location, not by markets (although one could in some cases use markets to attempt to replicate another jurisdiction's public goods, e.g., a firm in the US could provide medicare for its workers). Indeed, one might extend Storper's conception by suggesting that the process of competitive federalism can be viewed as an attempt among sub-national units to compete with each other in the provision of these untraded interdependencies or positive locational externalities. The new twist, drawing from the emerging regional-international interface, is that this competition in Canada is less and less along east-west (interprovincial) lines and more along cross border (international) lines. For example, Ontario probably takes due notice of tax rates in British Columbia and Nova Scotia. But it is far more concerned about tax rates in Michigan, Ohio and New York.

The above analysis is admittedly tentative and incomplete. The literature on networking and externalities in light of internationalization and the informatics revolution is literally exploding. Indeed, one could probably come at the concept of a region state entirely from a networking framework. For example, sociologist Manuel Castells in his sure-to-be classic *The Rise of the Network Society* (1996) offers the following assessment of the implications of globalization and the informatics revolution:

> The global economy emerging from information-based production and competition is characterized by its *interdependence*, its *asymmetry*, its *regionalization*, the *increasing diversification within each region*, its *selective inclusiveness*, its *exclusionary segmentation*, and, as a result of all these features, an extraordinarily *variable geometry* that tends to dissolve historical economic geography (p. 106, emphasis in original).

This is fully consistent with my own views of the supplanting of the traditional national-national relationship with the regional-international interface and the emergence of the region state.

E. Ontario and Untraded Interdependencies

While the evolution of Ontario toward region state status began well before the Harris government came on the scene (in 1995), it is nonetheless the case that neither the Peterson (1985-90) nor Rae (1990-95) governments would qualify Ontario as a region state in terms of the definition developed above. For example, the Peterson Liberals never did buy into the FTA, at least not officially. Nor did Rae's NDP government buy into the FTA or NAFTA. And neither premier accepted the rationale underpinning the GST (Canada's version of a value added tax), namely its export/import neutrality and, therefore, its inherent resonance with the concept of a North American region state. Beyond this, one can easily make a case that in terms of attracting foreign investment, Peterson and especially Rae were engaged in creating *negative* locational externalities – Peterson by embarking on an incredible spending spree that left Ontario among the high-tax, high-transfer provinces in Canada (and especially in North America) and Rae by doubling the province's indebtedness and triggering successive decreases in its credit rating. (Nonetheless, much of the rapid increase in Ontario's international exports (Chart 1) occurred prior to the 1995 ascension to power of the Harris Conservatives).

With the Harris government, all of this changed. Ontario bought into the full range of federal policies designed to promote export penetration and competitiveness. Moreover, by setting the province's fiscal house in order, including significant cuts in personal income taxation, the Harris Conservatives have certainly made Ontario a more attractive business location within North America. Beyond this, I would suggest that the on-going institutional/municipal revolution ought to be considered as an integral part of creating untraded interdependencies or positive locational externalities.

In more detail, one can divide these sweeping policy initiatives into two separate episodes. The first was the Harris Conservatives' election platform – the *Common Sense Revolution*. The legacy of the province's two previous governments was a dramatic increase in both debt and tax rates. As noted earlier, the annual deficits over the five year period 1990-95 never once dipped below $10 billion, with a cumulative debt accumulation in the order of $60 billion. Not surprisingly, therefore, the *Common Sense Revolution* focussed on returning the province to fiscal sanity – a balanced-budget over the 5 year mandate, a 30% reduction in Ontario's personal income tax rate,[5] a near-25% reduction in the number of politicians, a 15% cut in the provincial bureaucracy, and a promised 750,000 new jobs. All of this was legislated within the first six months of their taking office and fully implemented during their first mandate.[6] The Harris Conservatives were re-elected in 1999, with further tax cuts an integral part of their campaign platform – an additional 20% cut in provincial personal income taxes and a 20% reduction in the education component of property taxes.

Lest one attribute the strong economic performance of the province of Ontario since 1995 solely to the Harris Conservatives' legislative agenda, one should note their coming to office coincided with the fiscal turnaround engineered by Canada's federal Finance Minister Paul Martin. Hence, the Ontario Conservatives were fortunate to inherit low interest rates, low inflation, low federal deficits and, thanks a sharp depreciation in the exchange rate, a highly competitive Canadian economy (vis-à-vis the US).

Less than a year into their election mandate, the Harris Conservatives launched another revolution, which I refer to as the "institutional-municipal" revolution. This was an unbelievably broad set of reforms, all announced in a single week in January of 1996 and referred to as the "Mega-

Week" proposals. These included:

· a complete restructuring of the Ontario hospital system, including the closing and consolidation of many hospitals;

· a restructuring/amalgamation of Ontario municipalities, including the creation of the mega-city of Toronto (on which, more later);

· a wholesale restructuring of provincial-municipal powers, shifting "hard" services (services relating to property and infrastructure) to the municipalities and moving "soft" services (education, health and welfare) to the provincial level (although the municipalities will still be responsible for funding 20% of welfare costs);

· this municipal restructuring was accompanied by a new municipal Act, which enhanced the scope for municipal manoeuvrability;

· a major consolidation of school boards in the province;

· property tax reform – a shift to market-value assessment;

· a decrease in provincial transfers to various public-sector institutions such as schools and universities;

· added later, the privatization of Ontario Hydro.

Underpinning much of this was an effective declaration of war against public sector unions with the result that citizens have had to suffer through several province-wide strikes, especially in the education sector.

As noted, this was an incredibly ambitious reform agenda. While not downplaying the ideological underpinnings of these two revolutions, the untraded interdependencies framework provides an *analytical* perspective for these dramatic reforms, namely to enhance Ontario's locational advantage within the North American market. In particular, part of being competitive within North America implies an efficient public sector. This is especially important for Ontario (and Canada) since our public sector is much larger than its American counterpart. While it is not as yet clear whether this dramatic institutional revolution will increase public sector productivity, there is no question that this is its intent.

At this juncture, it might appear that we are equating the notion of a region state and positive locational externalities with the existence of *laissez-faire capitalism*. This is not necessarily the case. Region states can be exponents of either communitarian or individualist capitalism and they can be high or low transfer economies. In Ontario's case the confusion arises because the Harris government inherited a fiscal crisis and it had to sort this out as the first priority in terms of privileging Ontario and Ontarians in the North American context.

In any event, Ontario has made the transition from Canadian heartland to North American Region State. With what consequences?

F. Region-State Ontario: Implications

Ontario's transition from Canadian heartland to North American region state carries with it a series of rather profound implications – for Ontario (and Toronto), for internal Ontario governance, for its sister provinces, for the federation, and for the evolution of Canadian industry. I shall provide one example for each of these implications.

Changing Nature of Ontario

Panel A of Table 3 presents the defining characteristics of "old" (heartland) Ontario, while Panel B presents the salient features of the new (region-state) Ontario. Since the table is self-contained and is, in part, a capsule summary of aspects of the above analysis, I shall not dwell on it further.

Ontario's Economic Mission Statement

Far and away the most convincing evidence that Ontario has indeed donned the mantle of a

North American region state is the publication of an Ontario “economic mission statement” by the Ontario Jobs and Investment Board (OJIB), the chair of which is Premier Harris. Chart 1 presents a summary overview of the mission statement. The emphasis on knowledge and skills, innovation, global outreach, economic development and generating a favourable investment climate are the chosen strategies deliver on the overall “vision”, i.e., that “Ontario is the best jurisdiction in North America to live, work, invest and raise a family” and the accompanying “mission”, that “Ontario will achieve sustainable economic prosperity with the best performing economy and highest quality of life in North America over the next 10 years.” In effect, this can and should be viewed as a governmental and societal (OJIB consulted very widely in developing this mission statement) project designed to privilege Ontario with a set of “untraded interdependencies” that will allow it to excel as a region state. I would hazard a guess that no other sub-national jurisdiction anywhere has developed as focussed a mission statement designed to maximize the opportunities presented by globalization and the information revolution. To be sure, these are only words, but the already-announced next step for OJIB is to proceed with “benchmarking”, i.e. developing and publishing performance indicators relating to the components of the mission statement.

Given that Toronto and the GTA, even moreso that most Canadian cities, are creatures of their provincial governments and, therefore, have access to few policy levers, the policy initiatives alluded to earlier in tandem with this economic mission statement provide the overarching policy and structural framework within which Toronto will evolve. And there can be little doubt, either in terms of deed or word, that the policy framework is a North American framework, or more generally is directed toward creating untraded interdependencies for Ontario and Toronto. In this sense, understanding the new Toronto is intimately tied to an understanding of the new Ontario.

Managing Interdependence

One of the challenges arising from Ontario's and other provinces' focus on north-south trade is that creative initiatives are required to maintain the east-west economic and social union. In terms of preserving and promoting the internal economic union, the governments of Canada and the provinces signed on to the *Agreement on Internal Trade* (AIT) in 1994 modelled, to a degree at least, on the FTA principles. More challenging is the maintenance of the internal social union, since what is at stake is mounting an east-west transfer and sharing system over the increasingly north-south trading system. In February of 1999, all governments (except Quebec) agreed to the so-called "Social Union Framework" which embraces a version of co-determination or intergovernmentalism in terms of accommodating the social and socio-economic interdependencies as a result of NAFTA integration. These agreements provide overarching social and economic frameworks within which Ontario can exercise its policy flexibility.

Ontario-Triggered Changes in Federation: The Personal Income Tax

The policies of region-state Ontario are bound to have an impact on overall Canadian policy and governance. Thus far, the most significant such example relates to Canada's shared personal income tax (PIT) system. Canada's approach to PIT sharing is frequently viewed as a model for federal systems. Ottawa sets the definitions for income and the basic rate and bracket structure. The provinces then apply a single tax rate to "federal tax owing." These tax rates vary considerably across provinces, but average close to 50%, which means that the provinces receive roughly _ of total PIT revenues. The provinces can also mount various tax credits, low-income tax reductions and high-income surtaxes. Ottawa charges a small collection fee for these add-ons, but collects the basic provincial tax share free of charge. Thus, the shared PIT is decentralized (in that the provinces are free to vary their single tax rate) and harmonized (there is only one form to fill out). Quebec is not part of Canadian PIT sharing: it has a separate PIT system for provincial revenues. In its 1997 provincial budget, Ontario argued that the existing system was too constraining and indicated that it might follow the Quebec route of establishing its own PIT collection system. Ottawa responded by allowing all provinces, beginning in 2001, to apply their own rate and bracket structures against the commonly determined federal tax base. (In public-finance terminology, this represents a shift from the current "tax on tax" approach to a "tax on base" or "tax-on-income" approach). The result will be a much more decentralized PIT tax system both in terms of tax-rate parameters and, therefore, in terms of income-distributional implications. Alberta has already indicated that it will use this new flexibility to mount a *flat* tax for its PIT share. In this context, the above agreements on the internal economic and social union will emerge as even more important instruments for accommodating and coordinating the resulting policy interdependencies.

Toronto and the Bank Mergers Issue

As a bridge between the focus on Ontario and the focus on Toronto, the recent controversy over bank mergers is especially instructive. Specifically, the Royal Bank and the Bank of Montreal agreed to merge, as did the Canadian Imperial Bank of Commerce and the Toronto-Dominion Bank. In terms of market value, these banks represented the top four of Canada's six "national" banks. These initiatives merit further highlight.

An assessment of the environment that led to these proposed mergers might run along the following lines. In the 1970s, many large corporations began to realize that, as capital markets became more developed, they no longer needed their financing through the banks but could go directly to the capital markets. Canadian policy reacted to this by striking down the prohibition on banks owning investment dealers. (Actually, Ontario took the lead here, since regulation of investment dealers is a provincial jurisdiction in Canada. Once Ontario signalled its willingness to remove the former ownership restrictions on investment dealers, Ottawa followed by allowing the Banks to operate in this area). As the banks gobbled up most of the investment dealers, this allowed them to recapture some of the corporate market. But neither time nor markets stand still. In particular, a significant number of corporations are becoming so large that they require syndicates of banks to meet some of their financing needs, and this trend is going to continue. If Canadian banks do not become larger (in a capitalization sense), they will neither have the capacity to finance many of these corporations nor be sufficiently large to participate in the syndications. A niche strategy might save the individual banks as ongoing companies but, in aggregate, their combined strength and presence will fall short of what Canada needs for future economic development; increasingly we will likely have to rely on US and foreign institutions to finance key aspects of our economy, with all that this implies for sovereignty and made-in-Canada economic development.

One does not have to agree to this assessment of the merger issue to recognize that it has profound implications for Ontario's region state future and in particular for the evolution of Toronto. As noted in the Appendix, Toronto is the home base for five of Canada's six national banks (and for the four that were proposing to merge). In turn, better capitalized banks with an enhanced ability to become state of the art in terms of the emerging technology as well as the potential to operate more effectively internationally would surely contribute to Toronto's role as a major financial player in North America. Moreover, associated with being a major financial player comes a whole range of related services – accounting, legal, advertising, securities and the like. Not surprising Toronto was in full support of the mergers, since the resulting enhanced capital base of the new banks would allow them to play a key role in spearheading Toronto's global city aspirations.

However, while Ontario and Toronto had a north-south view of the evolution of finance and banking, Ottawa had an east-west view. This issue can be phrased differently and more generally. Canada's nation-wide banking system is also a key Canadian social or socio-economic institution. In this context, the prospect that the mergers would result in the closing of branches elsewhere in the country was viewed as unacceptable. To be fair, there *is* a social or solidarity aspect of our national banks. But what the merger issue highlighted is the deep societal division between the emerging requisites of north-south competitiveness and the traditional requisite of east-west solidarity. In the event, Canada's finance minister disallowed these mergers: East-west solidarity won this round, but the game is hardly over.

There is a far more pervasive and troubling policy challenge at issue here. Canada, from the 1879 National Policy onward, has fostered an east-west economy and society. But the three key planks of the National Policy (high tariffs, transportation subsidies and settlement of the west) are no longer in play, so that trade is once again (as in the pre-National Policy era) following the natural north-south geographical dictates. In economic terms, some of this east-west infrastructure has now become a "stranded asset". Left to the interplay of markets, economic agents will aggressively pursue the north-south economic and trading potential. Does government policy manage this transition, or does it attempt to counter these trends by viewing banks and other economic activities as an integral part of our east-west *social capital*? This highlights one of the key differences between Toronto as a global city and, say, US cities like New York, Los Angeles and Chicago. Unlike the latter, Toronto is home base for a very substantial range of "national" commercial and cultural enterprises. Indeed, its potential economic dynamism in the emerging north-south geo-economy arises, to a considerable degree, from this role as the dominant pan-Canadian player in the provision of these “national” goods and services. The prospect that Toronto would now utilize this east-west dominance to develop a powerful north-south presence does not sit well with many Canadians. The fact that Toronto has no real alternative but to aggressively adopt a north-south perspective does not mean that this inevitable adjustment will come easily on the political front. This is part of the rationale for approaching global-city Toronto from a division-of-powers (i.e. provincial) framework, rather than from the traditional urban studies approach. Nonetheless, both perspectives are essential and both will be the focus for the remainder of the paper.

III: TORONTO AS A GLOBAL CITY-REGION

The evolution of Ontario toward region state status is, for all intents and purposes, about the evolution of Toronto in the direction of becoming a global city-region. Thus, most of the above analysis is, at base, applicable to Toronto and to the GTA. Indeed, the relationship goes both ways: without Toronto as a powerful economic engine with an international reach, there would be no Ontario region state. With this caveat, I now turn my attention to the Toronto city-region.

The Greater Toronto Area (GTA), defined below, with its roughly 4½ million people constitutes just over 40% of Ontario’s population but 50% of its GDP. In turn, this means that the GTA accounts for roughly 20% of overall Canadian GDP. As already noted, this places the GTA in quite a different environment than that for any US metropolitan area. Specifically, the dominance of Toronto in the Canadian economy and society means not only that all Canadians have a stake in Toronto’s future but, as well, are likely to be far from indifferent in terms of how the city involves. This is one of the rationales for approaching Toronto’s future from the perspective of the political evolution of Ontario, and also the evolution of other provinces. Another is that Canadian cities in general, Toronto included, are creatures of their respective provinces and, as such, have few of the key economic and social levels at their own discretion. As already alluded to, one of the themes in what follows is that Ontario is facilitating, if not forcing, the globalization of Toronto.

The analysis begins by focussing on the political geography of Toronto. This is followed by a detailing of some of Toronto's key economic "clusters" that should or could serve the city well in North America's competitive markets. Attention then centres on the recent initiatives relating to the political and institutional restructuring of Toronto and the GTA, followed by some speculation in terms of where this evolution may end up. The section concludes with a discussion of Canada's role in Toronto's future and with an alternative perspective on the essence of a global city-region.

A. The Geography of the GTA

The upper panel in Chart 4 portrays the geography of the five regions that constitute the GTA – Metro Toronto, Halton, Peel, York and Durham. Until recently, metro was comprised of 6 municipalities – Etobicoke, York, North York, East York, Scarborough and the city of Toronto. As part of the amalgamation process associated with earlier-noted "Megaweek" initiatives, the province eliminated these 6 municipalities of the former Metro Toronto and created the mega-city of Toronto (henceforth referred to simply as Toronto). The ring of the four regions around Toronto is typically referred to as the "905 area", so-named because it recently acquired a separate area code, leaving Toronto with its original 416 area code. Based on 1996 data from Statistics Canada, Toronto's median income for 1996 is $19,000, with higher median incomes in the 905 area – Durham ($25,300), Halton ($27,500), Peel ($23,300) and York ($23,200). For comparison purposes, Ontario's median income is $21,000.

This is an arbitrary definition of the GTA. As the 1996 GTA Task Force Report notes (1996, 23, henceforth referred to as the Golden Report after its chair, Anne Golden) were one to adopt Jane Jacobs' "economic energy" dimension of a city-region, this would encompass the "Golden Horseshoe" – the urban area from Oshawa to Niagara, with Toronto at the core. In terms of the lower panel of Chart 4, the golden horseshoe would swing around the tip of Lake Ontario through to Buffalo. Indeed, the degree of economic interdependency is such that one might also include the corridor to the US mid-west, i.e., the area from Toronto to Kitchener-Waterloo, London and on to Windsor (and Detroit). When combined with the golden horseshoe, this larger area is typically referred to as the "golden triangle" (effectively the area encompassed by the Toronto-Buffalo-Detroit triangle). While the other areas of Ontario – Kingston and eastern Ontario, Ottawa and the national capital region, and the vast north and western areas of the province – are also progressively becoming more integrated with Toronto, they are more in the nature of economic hinterlands (except perhaps for Canada's version of "silicon valley" in the Ottawa area) and are typically not viewed as an integral part of the GTA.

B. Toronto's Economic Base[7]

Beyond from the fact that most of Ontario's economic, social and cultural strengths listed in the Appendix relate primarily to the role and influence of the GTA, it is instructive to focus in more detail on the various "engines" of growth that are driving Toronto's and the GTA's economic dynamism. Thankfully, Meric Gertler (1999) has provided such an analysis. His first observation, drawn in part from the Golden Report, is that Toronto is "unusually well-balanced" in comparison with major US city-regions. From Chart 4, Toronto ranks third after Detroit and Cleveland in terms of the share of manufacturing in total employment and second after New York for employment in

Finance, Insurance and Real Estate. As already noted this reflects Toronto's pre-eminent position in the hierarchy of Canadian cities, i.e. the financial, industrial, services and cultural capital of Canada. The obvious challenge facing Toronto is to capitalize on this enduring legacy and to grow it in the much more competitive North American context, a context where Toronto currently ranks ninth (some say eighth) in terms of the 10 Canada-US metropolitan regions with more than four million people (Golden Report, 1996, 23).

First and foremost among Gertler's economic pillars or clusters is the automotive sector. Facilitated by the 1965 Canada-US Auto Pact, the GTA is home to assembly plants of the American "majors" – GM, Ford and Daimler-Chrysler – as well as Honda's plants in Alliston. Supporting this continentally-integrated auto-assembly superstructure "is a substructure of rapidly growing and increasingly sophisticated producers of automobile parts" (Gertler, 1999, 4). Not only is the auto sector key in its own right, but much of the rest of the GTA and Ontario economy is driven off the automobile sector (one in six GTA jobs are auto-related). Moreover, and in part counter to the overall perspective of this paper, the impact of the Auto Pact was to fully integrate the GTA and Ontario into the North American automobile market far in advance of the 1989 FTA or the 1996 NAFTA initiatives and, therefore, far in advance of Ontario's donning its region-state mantle. (This serves as an important reminder to readers that not everyone is enamoured with my vision of Ontario as a region state and no doubt the ensuing analysis of Toronto as a global city will also find plenty of detractors).

Gertler also focusses on several other key GTA "pillars":

> · *Information and communications technology:* While "Ottawa-Carleton likes to fashion itself as 'Silicon Valley North', [and] the Kitchener-Waterloo-Cambridge community promotes itself as 'Canada's Technology Triangle' ... neither of these two hotbeds of

development in IT-related industries can match the Toronto region for diversity, anchored by industry giants such as Nortel Networks (whose world corporate headquarters is in the GTA), IBM Canada and Celestia" (*Ibid*, 4-5).

· *Advanced Engineering and Aerospace:* With Bombardier's GTA plant heavily involved in the Company's Dash 8 and Regional Jet programs, the resulting linkages literally include thousands of suppliers of precision parts and systems spread through the region and, indeed, the continent. Husky Injection Moulding Systems and associated companies and suppliers build and install manufacturing systems for industries as diverse as automotive, aerospace, electronics/telecom equipment, plastics, fabricated metals, food and beverages, and so on. Moreover, by combining two technological paradigms – electronic and mechanical – this sector produces important innovations in robotics and related automation technologies (Gertler, 1999, 5-6).

· *Financial Services:* Toronto is the effective headquarters for the big five Canadian banks, is the dominant centre for investment banking activity (nine of Canada's ten largest investment dealers have Toronto home offices), and is Canada's major player in the insurance industry. The Toronto Stock Exchange is the third largest in North America. In tandem, this cluster of activities endows Toronto with the third largest concentration of financial services activity in North America, after New York and San Francisco. To this, it is important to repeat that while banking, per se, is federally regulated, the province of Ontario regulates the investment dealers (and the Toronto Stock Exchange) as well as most financial services brokers.

· *Business and Financial Services:* As Canada's services capital, Toronto is home to an impressive array of legal, accounting, advertising, industrial design and consulting enterprises which now are becoming key "traded" sectors. Jobs in these key industries are among the highest value-added in the GTA.

· *Health and Education:* Toronto is at the centre of Canada's premier complex for medical education and research. While Canadian universities lag behind their US counterparts in generating endowments, the flagship of the Canadian university system, the University of Toronto, has passed the $1 billion endowment level en route to a planned $2 billion. The University of Toronto is the obvious depository for many of the international centres of excellence that are incorporated in the details of Ontario's mission statement (articulated earlier), since it sits atop the impressive system of the 40 Ontario universities and colleges.

· *Cultural Industries:* Toronto is now the third largest live theatre centre in the English-speaking world, after London and New York (Golden Report, 1996, 58) and the second or third largest in North America in terms of film production (Berridge, 1999, 1). Relatedly, the GTA's Sheridan College has an international reputation in terms of computer graphics and animation, which provides a drawing card well beyond the cultural sector.

In addition to these and other dynamic clusters and attributes (see the Appendix), much of Toronto's innovation comes from the fact that it is the national and natural focal point for attracting the best and the brightest of Canadian talent. However, this may be in the process of changing significantly. Recent data indicate that high-skilled and professional Canadians are increasingly attracted to the US – the number of FTA/NAFTA visas has risen from 16,000 or so in the early 1990s to nearly 100,000 in 1997. This is becoming a major public issue in Canada, with concern directed toward our high taxes, the falling Canadian dollar and our productivity shortfall. More to the point of this paper, the Ontario's policies and its mission statement are in large measure directed to providing an economic environment designed to ensure that the province, and especially the GTA, can retain our best and brightest. This is yet another rationale for embedding the future of Toronto within the larger evolution of Ontario.

Beyond this, Toronto is, far and away the preferred location for most of Canada's immigrants. Indeed, the city of Toronto is arguably the most multi-cultural (or multi-national) of all Canadian-US metropolitan areas. An astounding 45% or so of Toronto's (not the GTAs) residents are foreign born, suggesting that the global reach of Toronto will transcend the NAFTA economy.

This, then, is the *potential* of Toronto as a global city. To be sure, its current strengths reflect, in part, the thrust of overall Canadian policy. As noted, Toronto and the GTA were the obvious beneficiaries of the National Policy. Not only did Toronto emerge as the privileged hub for the production of national goods and services across an incredibly wide industrial spectrum, but many hundreds of US enterprises established Canadian (largely GTA) subsidiaries to "leapfrog" the tariff. Moreover, the 1965 Auto Pact privileged Ontario with an industrial and manufacturing base that has served to anchor a much more diversified and dynamic industrial and manufacturing infrastructure.

And then came the 1989 Canada-US Free Trade Agreement and the devastating 1990s recession, which effectively brought Toronto and the GTA face-to-face with its economic future. Is Toronto's future that of the economic, financial and cultural capital or Canada, while maintaining an important north-south linkage? Or does Toronto's economic future lie primarily in aggressively pursuing north-south integration while maintaining a dominant east-west role? From the admittedly subjective perspective of this paper, the resolution of this dilemma can be parsed as follows: 1) Toronto has little alternative but to pursue the latter option; 2) the dominance of the homeowner-based politics of Toronto (Berridge, 1999) suggests that Torontonians themselves (as distinct from 905 residents) may well have opted for the former; and 3) by donning its North American Region State vision, the province of Ontario is effectively, and appropriately, forcing Toronto into a global city-region framework. Not to put too fine a point on all of this, Ontario's "mind of state" is effectively and permanently altered Toronto's "state-of-mind" in terms of its economic future.[8]

Backing up a bit, part of Toronto's 1990s economic decline was linked to the fact that the recession was more or less world wide. Moreover, one can also lay a lot of the blame (in terms of the severity of the recession) on the Bank of Canada's price-stability strategy which served to appreciate the Canadian dollar from 76 Canadian cents per US dollar in 1986 to 89 cents in 1991, thereby wreaking havoc with Canada's, and particularly Toronto's, manufacturing and services industries.

There was, however, another and more ominous factor at play in terms of Toronto's fortunes – the inevitable integration imperative arising from the FTA and the attendant information revolution. There were, and are, two aspects to this challenge. The first is that the "open borders" policy of the FTA and NAFTA allows for quite dramatic rationalization of cross-border economic activity. Fast off the mark was the rationalization of US subsidiaries operating in Canada since the Canadian market could now be serviced from the US. Beyond this, Toronto faces a related challenge. One way to express this is to note that for a considerable range of economic activity, Toronto is Buffalo's international city! Buffalo and other proximate US locations are, under an open borders environment, within easy economic striking distance of Toronto and the GTA and they are "armed," as it were, with a legal, institutional and fiscal regime that is arguably more suited to aggressive competition. All told, this amounts to a clarion call to Toronto and Ontario that its erstwhile privileged position operating as Canada's heartland is now under siege and that Ontarians have no choice but to become aggressive players in the new geo-economic reality.

The second is that selected aspects of Toronto's dominance in Canada are also coming under challenge. It should hardly come as a surprise that other provinces and cities are also progressively looking north-south and, as such, they will also be focussing on ways in which they can forge cross-border linkages of their own and, in doing so, wean themselves from Toronto's influence. For example, the recent sale of British-Columbia-based MacMillan Bloedel to US Weyerhauser generated commentary to the effect that at least Weyerhauser was a Pacific Region firm, not a Toronto-based firm. This is the emerging north-south reality and mentality in action. Actually, this should eventually play in Toronto's favour for two related reasons. First, many far-flung, east-west enterprises centred in Toronto will also want to re-deploy some of this capital in north-south pursuits. Second, by having other regions focus their policies north-south, this should help pave the way for Canadians to allow Toronto more leeway in addressing its own economic future. Note that none of this suggests that Toronto will in any way let up on any east-west economic opportunities, as Ontario's strong support for the *Agreement on Internal Trade* made very clear.

I would be negligent were I not to update Toronto's economic fortunes during the remainder of the 1990s. Thanks to the earlier-noted restructuring, to the long-lived US economic boom and especially to the depreciation of the Canadian dollar (it fell from its 89 cent peak in 1991 to a low of 63 cents in the summer of 1998 and at the time of writing it is fluctuating between 66 and 68 cents), Ontario and the GTA literally took off. Exports more than doubled and, as already noted, roughly 45% of Ontario's GDP is now destined for US markets. Moreover, fully 50% of Canada's impressive job growth since 1995 has occurred in Ontario. This period coincides with the coming to power of the Harris government, so that there is much debate in Ontario and Canadian circles in terms of how much of this growth would have occurred naturally and how much is a result of the more competitive environment ushered in by the Harris government's policies. Perhaps the best way to answer this is that Premier Harris won re-election in 1999, the first back-to-back majority governments in Ontario since the 1960s.

C. The Political/Institutional Evolution[9]

The Task Force's Vision

In April of 1995, the Government of Ontario created the *Task Force on the Future of the Greater Toronto Area*, with Anne Golden as chair. Included in its mandate was to respond to the growing concerns about the health and workability of the Toronto city-region. When the Harris Conservatives assumed power (June, 1995), they left the Task Force in place, but required it to report on an earlier schedule. They also commissioned the *Who Does What* (WDW) Panel, with former Toronto mayor, David Crombie, as chair. Both of these investigatory bodies were to be integrated into the Harris government's initiatives relating to the institutional restructuring of the city and the province (outlined earlier). It is important to note that, in this time frame, the city of Toronto was still reeling under the lingering effects of the 1990s recession, although economic activity had already begun to pick up in the 905 area and in the rest of the golden triangle. Thus, a major part of the Task Force's agenda was devoted to addressing the "apparent and potential further decline in economic attractiveness of the core of the GTA" (Golden Report, 1996, 17).

At the heart of the economic concerns with respect to Metro Toronto was the divergence in property tax rates between Toronto and the 905 region. Essentially, Toronto had higher commercial property taxes than the 905 area and lower residential property tax rates. Toronto argued that its higher tax rates were triggered by its higher "needs" – among other things, a larger welfare case load and a much more serious "homelessness" problem than 905. The 905 area responded by arguing that Toronto's services were far too generous. In any event, the Task Force concluded that "the tax system puts Metro business at a serious disadvantage in comparison to businesses in other parts of the [GTA] region, and encourages businesses to migrate from Metro to other GTA municipalities, which exacerbates the problem of [Metro's] eroding tax base" (Ibid, 11-12). Arguably, there were other factors also at play in this migration of businesses from the core to the 905 area – e.g., space constraints in the core and the attraction of locating enterprises in the 905 area where, increasingly, their valued employees were residing. Nonetheless, the property tax issue and the requirement for political integration of the GTA carried the day in terms of the recommendations of the Task Force (Ibid, 9-10):

> Our report is premised on a vision of Greater Toronto as *the place where people and businesses that can choose to be anywhere, choose to be*.
>
> Our recommendations to support this vision include:
>
> - a framework for a Greater Toronto economic strategy that focusses on both physical and human infrastructure;

- a common assessment system for Greater Toronto, based on Actual Value, with a program to cushion the impacts on those adversely affected;
- equalization of property taxes that businesses in the GTA pay for education;
- removal of the barriers to efficient infrastructure investment to allow for a more sustainable urban form;
- removal of overlap and friction between the Province and municipalities through a financially neutral disentanglement of responsibilities;
- improved coordination for services that cross boundaries, without centralizing service delivery;
- replacement of the five existing regional governments with a single, streamlined Greater Toronto Council with a more limited range of functions; and
- giving local municipalities added powers and responsibilities to deliver a wide range of services more efficiently.

The last two bullets, among others, embrace the principle of subsidiarity. In the words of the Golden Report (1996, 174):

> The Task Force agrees that, wherever possible, services should be delivered by local municipalities to ensure maximum efficiency and responsiveness to local needs and preferences. The Greater Toronto Council will have only those responsibilities for services that are key to our competitiveness, requires planning and coordination at a region-wide basis, or cannot be provided at the local level. All other services previously delivered at the regional level will be devolved to local municipalities."

Thus, the existing five regional governments would transfer their existing responsibilities upward (upper tier integration) and downward (lower tier or municipal strengthening) and, in the process, presumably disappears.

The "Who Does What" Panel

Graham and Phillips (*op. cit.*, 185-86) summarize the recommendations of the WDW panel as follows:

> In total, the WDW Panel made over two hundred recommendations, including proposals for a more permissive municipal act (based on the Alberta model); property-assessment based on current value and use; amalgamation in general and, specifically, some consolidation of the GTA municipalities; and (following the Golden Report) the creation of a Greater Toronto Area Services Board to replace the five regional governments of the GTA. In terms of disentanglement, the panel's recommendations reflected the principle that hard services should

> be municipally funded and delivered, while human services (social assistance, public health, child care, and homes for the aged) should be the full responsibility of the province.

The Ontario Government's Response

Ontario's response to the GTA challenge was documented in part in the earlier discussion of the mega-week proposals. Setting aside important initiatives such as school board amalgamation and hospital restructuring, I shall deal with Ontario's response under two broad headings – the property tax/provincial-municipal reallocation of powers issue and the controversial amalgamation issue.

Reallocation of Powers

In terms of provincial-municipal disentanglement and the reallocation of powers and finances, the Ontario government's imperatives were driven by two priorities – first, to convert the historical property tax assessment to a "market value" base and, second, to wrest control over education from the municipalities (and the unions) and to make it a provincial responsibility. This transfer of education to the province would relieve the municipalities of over $5 billion in expenditure responsibilities. In return, the province initially proposed to download a set of services of roughly equivalent value:

> the municipalities would pay fifty per cent of the costs of welfare (both General Welfare Assistance that had been cost-shared 80/20 [from the province and municipalities respectively] and the Family Benefits Assistance and disability programs, which had been one-hundred-per-cent provincially funded], child care (previously cost-shared 80/20) and long term care (previously the full responsibility of the province). In addition, municipalities would assume from the province full responsibility for social housing, public health, ambulance services, homes for special care and police services in rural areas. [In terms of "hard services"], complete responsibility for public transit, municipal airports, local ferries, water and sewage treatment would be handed over to the municipalities (Graham and Phillips (1998, 188)).

This ran contrary to the spirit of the WDW panel which recommended that "soft services" (welfare, etc.) should move upward, not downward, and potentially set the stage for widely differing treatment in terms of human services across Ontario. Not surprisingly, this triggered a "mega-reaction" (*Op. cit.*, 189). Into this breach stepped the Association of Municipalities of Ontario (AMO) which offered the following counter proposal:

> The AMO's new alternative saw the province assume half the costs of education and allowed it to set a uniform residential property-tax rate, although school boards would have discretionary authority to raise an additional five per cent of the basic provincial grant per pupil from the property-tax. This approach avoided splitting education along functional lines yet provided for greater equity across boards. Because the province would assume only half the costs of education, fewer social services would need to be downloaded. Social assistance and child care would remain 80/20 cost-shared and their administrative costs 50/50 cost-shared, with one-hundred-per-cent local delivery. Long-term care and social housing would remain provincial responsibilities. Social housing would be reserved for a future round. This arrangement still increased the social-service costs borne by municipalities, because they would assume twenty per cent of the direct cost and fifty per cent of the administrative costs of the FBA component of welfare, which previously had been fully paid by the province. Since the municipalities would assume a much smaller load of social services than that specified in the Megaweek plan, the proposed Municipal Social Assistance Reserve Fund would not be required and the Community Reinvestment Fund could be reduced by half, to $500 million (Graham and Phillips, 1998, 196).

The province accepted this compromise with two important exceptions – social housing would become a municipal responsibility, facilitated by a set of provincial transfers, and the removal of the discretionary ability of school boards to raise an additional five per cent from the property tax. Along the way, the province also revamped the Municipal Act in a manner that enhanced the scope for municipal manoeuvrability, including "natural person powers" for the municipalities.

GRA Restructuring

Ontario did not accept the Golden Report's call for the elimination of the five regional governments and their replacement by a Greater Toronto Council. One rationale may have been that this would have created an enormously powerful sub-provincial government that might provide an alternative power centre in Ontario. The more likely rationale was political. The Harris government's base of support in the GTA was primarily and overwhelmingly in the 905 area. And the four regional governments of 905 were lukewarm, if not outright antagonistic, to a single GTA upper-tier government. Nor did it respect the Report's recommendation for strengthening municipal governments, at least in Metro Toronto. Rather, the province eliminated the six municipal governments in Metro, thereby creating what has come to be referred to as the Toronto mega-city, replete with an unwieldy 57 councillors.

It is worth dwelling further on the politics of the GTA. In the 1999 election, the Harris Conservatives swept the 905 region, taking a*ll* 18 seats, whereas they won only 8 of 22 seats in the Toronto megacity area (with the Liberal Party winning 11 seats and the New Democratic Party the remaining 3). Some of 905 sweep was probably due to the government's decision not to enforce upper tier integration of the GTA. However, the underlying reality is that the 905 area is far more enamoured than is Toronto with the fiscal conservative, small-government, low tax, export-oriented philosophy of the Harris Conservatives. On a much more speculative note, my view is that the home-owner and anti-business-based politics of Toronto (reflecting among other things the property tax differences in Toronto and the 905 area) still viewed the city as the secure core of an east-west national economy and, as such, could extract "rents" from Toronto businesses. In contrast, the 905 area was much more aligned to the conception of Ontario as an emerging North American region state and all that this entails.

Nonetheless, Ontario did embrace aspects of the spirit, if not the letter, of the Golden Report. Specifically, it created the Greater Toronto Services Board (GTSB) mandated to coordinate transit policy in the GTA. Decisions of the GTSB are to be taken on a population-weighted basis, so that the Toronto mega-city is in the driver's seat, at least temporarily, since it currently accounts for over

50% of the GTA population. As currently constituted, however, the GTSB has little in the way of resources to deliver on this mandate. In addition, the province also mandated GTA-wide sharing of those components of the residential property tax dedicated to financing welfare and other stipulated social services.

This last initiative merits some elaboration. The Conference background theme paper (Scott, Agnew, Soja and Storper, 1999) offers the following observations on the social geography of city regions:

> It is becoming apparent that globalization and its associated forms of economic change help to amplify social and spatial polarization and to widen the gap between the wealthy and the poor. Globalization intensifies these trends by stimulating the growth of high-wage occupations in large cities while promoting ... the prolification of marginal low-skills jobs. For example, in the early 1990s it was reported that the disparity between wealth and poverty in the US was the greatest among all the developed industrial countries and that this gap peaked in the countries two largest global city-regions, New York and Los Angeles (p. 14).

Available evidence in Canada (e.g., Beach and Slotsve, 1996) suggests that while market incomes in Canada are polarizing, overall income inequality (market income plus government transfers) is not as yet showing much evidence of diverging further. In part, this is because Canada has quite dramatically targeted its income support programs toward addressing inequality, e.g., the former universal family allowance has long-since been replaced by income-tested and even refundable child benefits. Nonetheless, there are growing concerns relating to the income-distribution implications of globalization on the one hand and the market-oriented policies of the Harris government. For example, when the Conservatives took office in 1995 they scaled back welfare payments by 21% (which put the province somewhere in the middle of the Canadian provinces) and embarked on a program of workfare. It is probably fair to say that, ideologically, Ontario is now far more polarized than at any time in memory. However, in an important sense, Toronto will not fall into the New York or L.A. trap, referred to in the Conference theme paper. Even under the old Toronto region, with its six independent municipalities, there was tax-base sharing across the region in terms of policy areas such as welfare and homelessness. Under the new Toronto mega-city structures, this sharing is now full. Moreover, and as already noted, the new initiatives call for tax-base sharing across the entire GTA for key social services. This will not relieve the core of its social problems, e.g., homelessness, but the financing of these challenges will not be left to the revenue-sharing capacity of the core. Beyond this, of course, mega-city residents have access to Canada's European-style social envelope – "free" hospital and medical insurance, a generous income-tested support system for the elderly, federal employment insurance and a growing federal presence in terms of addressing child poverty – refundable tax credits under the income-tax system and a new federal child benefit that Ontario has restructured to provide support for working-poor families. Thus, while the "hole in the donut" (or, given the GTA's geography as portrayed in Chart 4, the "hole in the croissant" (Slack, 1999) challenges on the social front of an emerging global region-city are apparent, in principle at least the financing of these challenges is such that all similarly-situated GTA residents are on a "level paying field."

D. Pressures for Further Evolution

The GTA and especially Toronto are still reeling from the pace and scope of Ontario's provincial-municipal revolution. For example, over the near term, Toronto has to accommodate itself to its new mega-city reality – integrating the 7 previous city halls (metro plus the six former municipal head offices) into a single administration centre, merging the various existing union contracts for inside and outside workers into an overarching collective agreement, harmonizing social services' benefits and administration, and so on. With the re-election of the Harris Conservatives, it is unlikely that there will be any rolling back of the recent reforms. On the other hand, it is also unlikely that these new arrangements will constitute a stable longer-term equilibrium. Already, some of the 905 regions are also thinking seriously about lower tier (municipal) consolidation. Rather, they are important and welcome steps in the direction of rationalizing the GTA for its inevitable role as a global city-region. Pressures for further reform are already bubbling to the surface in several area – infrastructure issues, management/financial capacity issues and, more speculatively, political evolution. I shall deal with each in turn.

Infrastructure Issues

The Greater Toronto Services Board (GTSB) has the long-term potential for forging an integrated approach to those areas that are critical to enhancing GTA-wide competitiveness and exporting potential (e.g. a physical and human infrastructure). However, as currently constituted, the GTSB is in no position to deliver on this: it has “no direct elections, no clear mandate, no taxing powers, no democratic accountability and no independent powers” (Mendelson, 1999, 2). Accommodating this litany of concerns may well make the GTSB too powerful, but the underlying issue is straightforward: achieving a unity of purpose across the GTA requires the existence of governing mechanisms whose spatial scale corresponds with the boundaries of the full regional economy (Gertler, 1999, 16).

By way of illustration, it is instructive to focus on the GTA physical infrastructure challenge. Berridge (1999) addresses the challenge in terms of the following “paradox” or trade-off:

> Toronto can help keep Canada economically dynamic only through greater integration with the US economy. To do so, however, it must go head to head with some very substantial cities south of the border that are in the midst of a renaissance spurred on by massive investment ... To maintain our ranking ... in the face of well-capitalized US urban competition will require both a strategy and a scale of public and private financial investment not now

evident.

These US cities have benefited from very substantial federal infrastructure spending. This is a non-starter, politically, in Canada since the federal government must go *through the provinces* with respect to municipal initiatives. Ottawa is mounting a modest infrastructure program, but it requires provincial matching and will presumably be subject to provincial priorities. Thus, "the fundamental strategic goal for the Toronto area must be to become financially self-sufficient, not only from an operating perspective, but generating a significant portion of capital requirements for new investment" (Berridge, 1999). As noted in the next section, Toronto has limited financial capacity to meet its operating budget, let alone embark on infrastructure spending.

But the solution to the infrastructure challenge goes well beyond the financial issue. Again, Berridge merits quotation:

> Toronto also desperately needs the management capacity for urban regeneration that is characteristic of every other world city. We have no development corporations for public-private projects comparable to the agencies typically responsible for transforming waterfront and industrial lands in U.S. and British cities.

Relatedly:

> Toronto cannot remain a competitive global city without the active involvement of the business, financial and voluntary sectors. All successful cities have broadened the constituency commitment to productive management of their urban future beyond the narrow framework of home-owner based local politics. Without such business intelligence and community resources, no effective business plan can be realized. How we achieve this may be Toronto's biggest challenge.

As a concluding comment that transcends the infrastructure issue, my view is that the Ontario government made the right decision, for the present at least, in rejecting the Golden Report's recommendation for a unified GTA political structure. There is, as yet, no "unity of purpose" (to use

Gertler's term) across the GTA. The path to achieving this lies in the direction of enhancing the role of the GTSB in those areas that serve the common global-city imperatives of all of the GTA's five regions. If this eventually leads to GTA amalgamation, so be it. But in the interim, and in the context of a more effective GTSB, the inter-regional competition should be viewed as healthy and, indeed essential, to ensure that the GTA does not veer off too far in any one direction.

Fiscal Flexibility[10]

Toronto and the GTA are, as a result of the recent Ontario reallocation of provincial-municipal powers and finances, arguably the most fiscally-restrained of Canadian cities. Fully 20% of GTA operating expenses are allocated to social and family services, over which the GTA has limited control. On the revenue side, property taxes and associated levies, which account for ½ of the budget, are now increasingly subject to provincial rate-setting. A further 20% of revenues comes in the form of conditional grants from the province to be spent in line with provincial priorities. The remainder consists of user fees (16%) plus a variety of other revenue sources. Beyond this, municipalities cannot borrow to meet operating deficits. This leaves the GTA in a vulnerable position in the best of times and will likely generate a fiscal crisis in the face of a future recession.

In general, the GTA can pursue three main approaches to enhancing its fiscal flexibility. One is to "upload" selected expenditure categories to the provincial level. An obvious candidate here is "social housing" which should appropriately be a provincial, if not national, responsibility in any event. Indeed, if the earlier analysis is correct, namely that region states will focus more on wealth creation than on income-distribution concerns, then there probably is a rationale for a greater federal presence on the distributional front. In any event, to the extent that any such uploading leads to a compensating decrease in provincial conditional grants, this will do little to ameliorate the financial straightjacket, although it will help cushion the financial implications of an economic downturn.

A second approach relates to the general area of cost-containment and, in particular, a more extensive approach to user fees. In terms of the latter, Toronto could follow the increasing trend to extend user fees to other services such as garbage collection. Along similar lines, Berridge (1999) notes:

> [Toronto and the GTA] have to decide what activities the city-region should *not* finance off the tax base, scrutinizing all the operating municipal services businesses – electricity, water and waste water, garbage, transit – and creating new organizations largely able to meet their own needs. Toronto is one of the few world cities that still operates these services as mainline businesses. The ability to use the very substantial asset values and cash flows of these municipal businesses is perhaps the only financial option to provide the city region with what is unlikely to be obtainable from other sources: its own pool of re-investment capital. Such an urban infrastructure fund would have remarkable leverage potential, both from public-sector pension funds and from other private-sector institutions.

But this has never been the Canadian way. We pride ourselves in our universal, no-user-fee, medicare system and are extremely loathe to rely on user fees elsewhere in the policy arena, lest they become the thin edge of the wedge in terms of spreading to the health system. Indeed, this national characteristic is part of the reason why Canada's aggregate government (federal and provincial) debt load is now 100% of our GDP. This is yet another reflection of the fact that we Canadians are having a difficult time making the transition from the former resource-dominated and behind-tariff-walls paradigm to the new realities of the emerging global order. Nonetheless, Berridge's comments are clearly the way of the future.

The third and most obvious avenue for achieving fiscal flexibility is to gain access to new revenue sources. The area under some discussion (and suggested by the Golden Report) is for the GTA to share in the provincial motor fuels tax, along the lines of current practice in the Greater Vancouver area: "the ability ... to receive a share of the fuel tax (and possibly license fees and other transportation-related charges) to fund road of transit improvements would increase Toronto's financial self-sufficiency and its ability to pay for transit and transportation needs in the region (Slack, 1999, 8). Beyond this option, Slack notes that city-regions like Stockholm and Frankfurt have access to a share of income taxation. Allocating a portion of the provincial sales tax is yet another potential option. It may not be surprising that none of these options are even on the provincial government's radar screen. What is surprising is that they do not feature prominently, except for the fuel tax, in terms of the priorities of Toronto and the GTA. In my view, the underlying issue here is political, not economic. Toronto and the GTA are still locked into the constitutional mind set that they are creatures of the province. However, with the creation of the megacity and with the potential for the GTSB to evolve into a GTA-wide instrument for integrating physical and human capital infrastructure, the political dynamics of Ontario could alter significantly. In admittedly speculative fashion, I now address this potential for greater self-determination for Toronto and the GTA.

Political Evolution

With its over 4½ million residents, the GTA has a larger population than all but two Canadian provinces – Ontario (or the rest of Ontario) and Quebec. If and when the GTA embraces a "unity of purpose" and conceives of itself as an integrated global city, it may well become a political arrangement that will be able to rival Queen's Park in selected policy areas. And if the GTA were ever to become a single political entity, it would not take long before it harbours aspirations of becoming a city-province along the lines of the German city-laender – Hamburg, Bremen and Berlin. Presumably the province would veto any such aspirations, but the fall-back position would certainly be a degree of GTA self-determination that Queen's Park could no longer ignore. But even without political amalgamation, the Toronto mega-city will possess a cadre of civil servants that will have sufficient information, analytic and implementation capacity to generate alternative approaches to policy and program development to those emanating from Queen's Park. Of and by itself, this will change the political dynamics between the GTA and the province.

Relatedly, Toronto itself has the possibility for significantly altering the politics of Ontario. The new city's 57 councillors represent, in my view, an unstable equilibrium. Presumably the rationale for such a large body had to do with either or both of the following – to allow for "neighbourhood" representation in order to make the new megacity more acceptable to the six constituent municipalities or, relatedly, the ensure that the sheer members would, from Queen's Park's view, effectively constitute a "divide and conquer" strategy and prevent Toronto from speaking with a unified collective voice. However, the unwieldy nature of the status quo will likely become apparent to Torontonians, once the initial adjustment to the reality of the megacity is complete. If the numbers of councillors is not reduced in order to facilitate more effective governance, the likelihood is that this will be an open invitation for the introduction of party politics at the Toronto level which, in turn, *will* influence the provincial political environment.[11]

There is, of course, a close relationship between economic/financial and political self-determination. The more that Toronto (and particularly the GTA), embraces the conception of itself as a global city-region that has to make its way in the context of competing North American global city-regions, the more likely that Queen's Park will be pressured to accommodate this political thrust with a greater degree of fiscal self-determination.

In any event, the purpose of this speculation is not to attempt to predict the future of the GTA. Rather, it is to suggest that recent Ontario initiatives in reconfiguring provincial-municipal powers are best viewed as a temporary equilibrium, with the seeds for further evolution ready to germinate.

E. Canada Matters Too

To this point, the analysis has focussed on Toronto as a global city-region through the lens of Ontario's emergence as a North American region state. Where is Canada in all this? The correct answer is that it is omnipresent. It was the Canada-US Auto Pact that put Ontario and the GTA on the North American manufacturing map. It was Canada that boldly spearheaded in the Canada-US Free Trade Agreement and, later, NAFTA. And it was Canadian macro policy in the mid-1990s that tamed the deficit, reduced inflation to near zero, generated 30 or 40 year lows in interest rates which, in tandem with the fall in the dollar, engineered the most competitive Canadian and Ontario economies in the post-war period. Without these initiatives, there would be no Ontario region state and Toronto's star as a global city-region would be shining a lot less brightly.

Nonetheless, globalization and the information revolution present Canadian governance with additional challenges. As already noted, one of these is to provide pan-Canadian leadership and policy in terms of ensuring not only that our human capital infrastructure is consistent with the reality that knowledge is at the cutting edge of competitiveness, but as well, to ensure, wherever possible, that the best and the brightest among us can find in Canada a productive and innovative environment to ply their skills. One of the major concerns here is that Canadian income taxes are not only too high but are triggered at very low thresholds of income. For example, apart from the fact that marginal tax rates are much higher in Canada (at the "average production wage", marginal rates in Canada and the US are 45.9% and 29.9% respectively, Courchene, 1999a), the top marginal rate kicks in at roughly $64,000 in Canada, whereas the top marginal rate in the US takes effect at an income level of $400,000 (Canadian dollars). And it is the Americans that appear to be the more determined to implement a substantial further reduction in income tax rates. To a large extent, the significant rate reductions in Ontario's (and Alberta's) component of the shared income tax are designed to attempt to ameliorate the overall Canada-US marginal-tax-rate differential. If Ottawa does not act, the provinces will continue along this path. Hence, it is now imperative that the federal government bring its tax rates more in line with US rates. If this places its social agenda in the balance, then the appropriate response is to increase the tax rate on the export-import neutral GST (VAT).

This reference to social programs relates to another Canadian concern – namely that a North American integration is undermining Canadian support for its generous social contract. To a degree, this is indeed the case – all nation states are re-evaluating the magnitude of, and incentives within, their social envelopes. But there is a related issue that, arguably, is as important when it comes to Canadian's views of social policy and government generally: increasingly, citizens perceive that the value of government programs falls short of the tax cost of these programs. And in this they are surely correct, since the huge debt overhang means that over _ of every federal tax dollar goes to debt servicing. Generating a lower debt-to-GDP ratio would thus serve several goals, e.g. it would make Canada more competitive (by allowing for tax reduction or for programs that would enhance Canada's knowledge capital) and it would restore citizens faith in government spending since more of each tax dollar could be devoted to program spending. In the process, this would surely enhance the future of Toronto as a global city.

There is, however, another challenge facing Ottawa, namely to find creative instruments that would allow Canadian industry more flexibility in adjusting to its new NAFTA opportunities. As Gertler (1999, 14) perceptively notes:

... it is foolish or misguided to presume that, just because city-regions have become the key

> locus for innovation and learning, they must now be expected to provide the full wherewithal to support these activities themselves. If one looks at the world's great clusters of economic activity, the influence of senior (especially federal) governments is almost universally very strong. While this is most obvious in great capital cities like London and Paris, it is equally true in Silicon Valley, which has risen, fallen, and risen again at least in part on the basis of national defence policy and military procurement in the US, and whose high-tech firms show more than passing interest in *federal anti-trust and competition policy* (emphasis added).

The most important exemplar of the need for rethinking competition policy in terms of Toronto and the GTA relates to the banking sector. In the new global era, countries are lucky if they have a few "national assets" to help propel them forward competitively. The Canadian banking sector is clearly one such Canadian asset. We must not allow this sector to languish into second-class status in North America. Yet, we must also recognize that the existing east-west banking infrastructure represents both national social capital and economic capital for other Canadian regions. Hence, we need a solid dose of innovative statecraft to generate creative instruments that will allow the banks to pursue their inevitable north-south future and at the same time ensure that all Canadians continue to have access to effective, efficient and accessible financial services. Toronto as a global city-region needs banks with a greater international capacity and reach. Arguably, so does the rest of Canada. The ball is in Ottawa's court.

F. An Alternative Approach to Toronto as a Global City-Region

As a final substantive issue, I would be remiss not to alert readers to the existence of a parallel body of research into region-state and city-region dynamics (Wolfe, 1997, and to some Gertler, 1999, among others) that offers a more traditional perspective on global city-regions. This literature has the same starting point, namely the importance of Storper's conception of untraded interdependencies, but it then places emphasis on important issues such as networking, the role of trust in generating "tacit" knowledge, learning-by-doing, learning-by-using, the presence of a set of social and economic institutions which support learning-by-interacting, among other attributes. I agree that these characteristics should and will be an integral part of a successful region state or global city-region. Indeed, I would also embrace the notion that governance in the millennium will become more "associative." As Wolfe notes, (1997, 229), "the associated model substitutes for the exclusive role of the public bureaucracy a mix of public and private roles and it emphasizes the context of institutional structures and learning." Further (op. cit. 230), "in an associative model, the relevant level of the state has to become one of the institutions of the collective order, working in relationship with other organizations, rather than operating in its traditional command and control fashion", i.e. the "state in this model continues to establish the basic rules governing the operation of the economy, but it places much greater emphasis on the devolution of responsibility to a wide range of associative partners through the mechanisms of voice and consultation." The ultimate objective here is to shift away from hierarchical forms of organization and toward heterarchical areas in which "network relations are based on conditions of trust, reciprocity, openness to learning and an inclusive and empowering disposition" (*Ibid*, 228). Ideally, the result will be a reflexive and "learning region" in which the role of the region state and its institution is "to *animato* the formation of interactive relationships "that will" lead and facilitate the collective process of critical self-assessment and ... actively seek to emulate and learn from the successful experiences of counterpart organizations and strategies in other regions and nations (Gertler, 1999, 15). Beyond all of this, Wolfe's paper, with its impressive sweep of the literature (roughly 100 references) provides a valuable and convenient distillation of this emerging approach to the analysis of region states and global city-regions.

However, where I, not surprisingly, tend to part company with Wolfe is his claim that my conception of region state Ontario embodies the "two worst features" of the old paradigm – a focus on static rather than dynamic competitiveness based on innovation, and a top-down, centralized, bureaucratic and Taylorist form of public administration that is antithetical to the associative form of governance, based on high levels of trust and social capital (234). He then goes on to hold the policies of the Ontario Liberals (1985-90) and the NDP (1990-95) on the one hand, and the German (and continental European) institutional arrangements (e.g. co-determination) on the other, as paragons of virtue in terms of furthering region-state aspirations. Dealing first with Germany, my view is that while this country fully mastered the essence of the old paradigm, it is in for a rude awakening in the new. Setting aside the fact that it has failed miserably on the job creation front, choosing instead to tolerate massive unemployment (in terms of its 1960's rates), it hardly qualifies as an innovative economy. For example, all of Western Europe's 25 largest corporations in 1998 were also large in 1960, whereas 8 of the US largest corporations in 1998 did not exist in 1960 or were very small. Not to put too fine a point on all of this, Europe has been singularly unable to grow new companies into big companies and, as a result, it is way behind in terms of the new information industries (Thurow, 1999, 93). To be sure, the Schumpeterian process of "creative destruction" is messy and costly, but it is an integral part of success in the new global order. If innovation is high on one's priorities, as it apparently is for Wolfe, then Germany is a questionable paragon of virtue.

The reference to the virtues of the 1985-1995 era in Ontario is even more troublesome. During these years, the two Ontario premiers were, as already noted, against the FTA, against the import-export neutral GST, against the Bank of Canada's price-stability strategy. This is hardly conducive to Toronto and the GTA adopting a global city-region mentality. Beyond this, the 1985-90 Liberal administration in Ontario adopted a tax and spend policy that left Ontario as one of the high-tax provinces. And the five-year string of $10 billion plus deficits that served to double Ontario's debt over the 1990-95 NDP reign left Ontario, the traditional Canadian economic motor, fiscally and economically crippled. It may well be that the NDP policy did attempt to "alter the business culture of the province in the direction of creating *socially* organized firm based systems for learning, collaboration, cooperations, and regulation – in other words to move it more in the direction of a networked and associative model" (*Ibid*, 233). But business would have nothing to do with NDP policy and when labour, its traditional ally, also abandoned the NDP, there were effectively no Ontarians left to associate with!

In this context, the top-down, centralized, etc., approach of the Harris Conservatives was necessary to restore fiscal sanity to the province. Now that this has been largely accomplished, it seems to me that the earlier-reproduced Ontario mission statement is precisely the overarching integrative approach with its balanced emphasis on human capital, innovation, global orientation, and world-class infrastructure within which Storper's untraded interdependencies are most likely to emerge. Wolfe is right, however, when he notes that Ontario society is now more polarized than at any time in the post-war period. I would note, however, that, to a degree at least, this was inevitable. Globalization and the geo-economics of NAFTA are forcing a profound rethinking of the politics and geography in the upper half of North America. We Canadians are finding it difficult to make the societal transition from a resource-based, behind-tariff-walls economy to a human capital based economy, i.e. from boards and mortar to mortar-boards. Much as we might wish, there is no status quo to fall back upon. Moreover, it is important to emphasize that successive Ontario governments from the 1960s onward have wrestled, unsuccessfully, with tax-base reform, with hospital restructuring, with school board amalgamation and the like. Albeit in a somewhat high-handed manner, Ontario has now succeeded in implementing these necessary, but admittedly politically-difficult, reforms. And Ontarians have re-elected the Harris government with the same percentage of the popular vote that it garnered (indeed, marginally higher) in the 1995 election.

However, the key issue here is with respect to "process". Does one achieve a social-learning and highly interactive and complementary industrial structure by a deliberately active interventionist policy or does one accomplish this by creating a flexible framework structure supported by an appropriate macro (competitive) environment and then allow the private sector to forge these linkages on its own? My distinct preference is for the latter. More importantly, the underlying theme of this interpretative essay is (subject to ensuring that Canada also comes on side in terms of tax rates, debt, and policy areas like banking as well as in terms of an overarching social framework) that the underlying building blocks (e.g., the GTSB and the Ontario Mission Statement) for a successful Toronto global city-region are either largely in place or that the emerging pressures and/or feedback mechanisms are propelling Toronto in this direction. Others can and certainly will disagree.

IV: CONCLUSION

The geo-economies of the FTA, NAFTA and, more generally, the emerging global order are having a profound and permanent impact on the economic and political underpinnings of Canadian society. While east-west trade is far more open and efficient than the cross-border trade, the sheer size of the NAFTA economy and the associated "open borders" dictates that the volume of north-south trade is beginning to dominate the economic fortunes of our east-west economies. Consistent with the downward transfer of powers associated with the glocalization thrust of the new paradigm, the various Canadian regions and provinces are, to varying degrees, donning the mantle of North

American region states. Nowhere is this more apparent than for Ontario. The thesis of this paper is that the emergence of Ontario as a North American region state is providing the governance architecture and the needed restructuring and incentives for Toronto to make its likewise inevitable transition from Canada's economic, financial and cultural capital to a global city-region in the North American context and beyond. This is a politically troublesome transition for Canadians, since the undeniable economic strengths and potential of Toronto and the GTA have been derived either from national policy (e.g., the Auto Pact) or from their role as the provider of national goods and services to all Canadians. To now re-deploy this power and influence in a north-south pursuit of economic advantage and prosperity may well be (and in areas like banking, is) viewed as a reneging of sorts of a long-standing, implicit east-west "societal contract."

But Toronto has no meaningful alternative. Fortunately, the future of Toronto has been well-served by the recent and impressive series of reports and research papers, all of which focus on creative ways in which Toronto and the GTA can not only better govern themselves but, in the process, more effectively make their way competitively within the open-borders framework of North America. Unfortunately, from the vantage point of many, Ontario did not embrace the full policy and structural thrust of these reports. Yet it has gone a considerable way towards this end. To be sure, this does not imply that the province's initiatives, particularly in the area of provincial-municipal restructuring and the political structure of the GTA, are appropriate, let alone the final evolutionary word. What I do intend to imply, however, is that the important and significant steps in the direction of Ontario donning the mantle of a North American region state, in the direction of Ontario embracing an economic mission statement which assigns high priority to human capital, to innovation and, more generally, to privileging Ontario as an attractive location in North America, and in the direction of implementing institutional and structural changes in Toronto and GTA governance, which will serve to provide an overarching framework that will facilitate, if not propel Toronto toward its inevitable future as a powerful global city-region. Indeed, I believe that Ontario may well have overplayed its hand here. Internal and external pressures on Toronto and the GTA will be such that the GTA will indeed evolve towards Gertler's goal of a "unity of purpose" and that the GTSB will become an effective body for developing infrastructure and other GTA-wide initiatives to capitalize on the opportunities presented by the NAFTA geo-economy. Intriguingly, although perhaps unwittingly, Ontario may well have laid the framework for the creation not only of a powerful global city-region but as well for an increasingly influencial political countervail to Queen's Park. Thus, it is likely that the approach in this paper, namely viewing Toronto through the lens of region-state Ontario will generate a completely new dynamics – global city-region Toronto will begin to alter Ontario's view of itself and its role in the federation and, indeed, alter the federation itself.

Endnotes

* Since the political economy of cities and city-regions is not my area of specialization. I gratefully acknowledge the generous support I was given in writing this paper. In particular, I would like to thank several Ontario government officials for providing insight and information on both Ontario and Toronto. Graham Murray and Associates also provided needed input. I also relied heavily on a recent *Evolution of Toronto Forum* and, in particular, the papers by Joe Berridge, Meric Gertler, Michael Mendelson and Enid Slack. Given the interpretive nature of the ensuing analysis, it is with more than the usual caveat that I take full responsibility for what follows.

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1. With its 11.1 million people, Ontario accounts for 37% of Canada's population and 40% of Canadian GDP. With its roughly 4½ million people, the Greater Toronto Area accounts for just over 40% of Ontario's population but generates 50% of Ontario's GDP. Thus, the GTA accounts for 20% of all of Canada's GDP.

2. From Earl Fry (1998, 77):

   > Despite closing its overseas offices, Ontario continues to employ over 80 people who devote their time almost exclusively to international trade, investment and political activities, about equal to the domestic-based international staff of California and New York combined. Ontario has budgeted $34.4 million (Canadian) for its Trade, Investment and International Relations program and for the Ontario International Trade Corporation, more than the international programs of California, New York, Michigan, Pennsylvania and Ohio combined.

   Fry also notes (*loc. cit.*) that "Quebec is the world's foremost proponent of subnational government activity in the international sphere" – it "spends more and has a larger international staff than all 50 US states combined". Indeed, Quebec has its own Minister of International Relations. Part of this is cultural (i.e. links to the "Francophonie"), but part also relates to Quebec's sovereignty aspirations.

3. The sources for the information in Chart 1 and Table 1 are slightly different. Hence the data tell a somewhat different quantitative story, but not a different qualitative story.

4. In terms of the most recent data (Eves, 1998), Ontario's international exports are now running at 48.5% of its GDP.

5. One might note here that the provinces collect, on average, just under 40% of all personal income tax revenues, so that a 30% reduction in Ontario's tax rate is a significant decrease in income taxes.

6. The exception relates to the promised job creation. Although Ontario has accounted for nearly 50% of all new Canadian jobs created since Harris came to power in 1995, this still left the province a bit short in terms of the job creation promise.

7. This section draws heavily from Gertler (1999).

8. Note that this refers to the "institutional" mentality of Toronto, i.e. much, but not all, of the Toronto's industrial complex is already north-south oriented.

9. An excellent overview of these institutional changes, and one that I rely heavily upon, is that by Graham and Phillips (1998).

10. Slack (1999) presents a comprehensive overview of the finances of the GTA, aspects of which are reproduced in the following text.

11. Americans, and perhaps others, will surely find it intriguing that city politics in Canada is not integrated into the provincial or federal party structures.